Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

AGRICULTURE AND AGRI-FOOD CANADA

Financial Statements (Unaudited)
For the year ended March 31, 2013

Canada

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2013, and all information contained in these statements rests with the management of the Department of Agriculture and Agri-Food Canada. These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of Agriculture and Agri-Food Canada's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in Agriculture and Agri-Food Canada's Departmental Performance Report, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the Financial Administration Act and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout Agriculture and Agri-Food Canada and through conducting an annual assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

A risk-based assessment of the system of ICFR for the year ended March 31, 2013 was completed in accordance with the Treasury Board Policy on Internal Control and the results and action plans are summarized in the annex.

The effectiveness and adequacy of Agriculture and Agri-Food Canada's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of Agriculture and Agri-Food Canada's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The financial statements of Agriculture and Agri-Food Canada have not been audited.

Suzanne Vinet, Deputy Minister

Pierre Corriveau, Chief Financial Officer

Ottawa, Canada
August 26, 2013

AGRICULTURE AND AGRI-FOOD CANADA

Statement of Financial Position (Unaudited)
As at March 31
(in thousands of dollars)

	2013	2012 Restated (Note 16)
Liabilities		
Accounts payable and accrued liabilities (Note 4)	$ 1,113,025	$ 1,137,731
Vacation pay and compensatory leave	28,966	30,395
Deferred revenue (Note 5)	13,983	13,102
Employee future benefits (Note 6)	77,619	81,946
Other liabilities (Note 7)	72,205	115,590
Total liabilities	1,305,798	1,378,764
Financial assets		
Due from Consolidated Revenue Fund	1,100,631	1,075,222
Accounts receivable and advances (Note 8)	82,885	83,070
Loans receivable (Note 9)	339,253	341,776
Total gross financial assets	1,522,769	1,500,068
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 8)	(20,487)	(12,437)
Loans receivable (Note 9)	(339,253)	(341,776)
Total financial assets held on behalf of Government	(359,740)	(354,213)
Total net financial assets	1,163,029	1,145,855
Departmental net debt	142,769	232,909
Non-financial assets		
Prepaid expenses and inventory	3,624	6,069
Tangible capital assets (Note 10)	375,401	380,399
Total non-financial assets	379,025	386,468
Departmental net financial position (Note 11)	$ 236,256	$ 153,559

Contractual Obligations (Note 12)

Contingencies (Note 13)

The accompanying notes form an integral part of these financial statements.

Suzanne Vinet, Deputy Minister

Pierre Corriveau, Chief Financial Officer

Ottawa, Canada
August 26, 2013

AGRICULTURE AND AGRI-FOOD CANADA

Statement of Operations and Departmental Net Financial Position (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	2013 Planned Results	2013	2012 Restated (Note 16)
EXPENSES			
Business Risk Management	$ 1,817,756	$ 1,372,548	$ 1,359,221
Internal Services	419,675	441,857	446,910
Science, Innovation and Adoption	349,695	307,428	263,775
Trade and Market Development	113,496	264,021	96,751
On-Farm Action	151,665	112,761	121,388
Food Safety and Biosecurity Risk Management Systems	95,416	90,323	85,706
Environmental Knowledge, Technology, Information and Measurement	56,298	81,776	88,248
Agri-Business Development	41,882	69,196	113,295
Rural and Co-operatives Development	19,459	15,367	20,560
Canadian Pari-Mutuel Agency	10,533	9,223	10,288
Regulatory Efficiency Facilitation	35,374	11,630	12,785
Farm Products Council of Canada	2,731	2,866	2,927
Expenses Incurred on behalf of Government	2	(15)	3
	3,113,982	2,778,981	2,621,857
REVENUES			
Crop Re-Insurance Fund	36,702	80,403	34,558
Sale of goods and services	74,737	71,927	64,347
Interest	10,067	12,143	11,719
Joint project and cost sharing agreements	6,072	5,535	4,303
Gain on disposal of assets	7,303	342	238
Revenues earned on behalf of Government	(68,386)	(106,779)	(58,391)
	66,495	63,571	56,774
Net cost from continuing operations	3,047,487	2,715,410	2,565,083
Transferred operations			
Expenses	-	-	11,595
Net cost of transferred operations	-	-	11,595
Net cost of operations before government funding and transfers	3,047,487	2,715,410	2,576,678
Government funding and transfers			
Net cash provided by Government		2,699,193	3,139,733
Change in due from Consolidated Revenue Fund		25,409	(628,360)

AGRICULTURE AND AGRI-FOOD CANADA

Statement of Operations and Departmental Net Financial Position (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

Services provided without charge by other government departments (Note 14)	73,474	71,456
Transfer of assets from other government departments	448	25
Transfer of assets and liabilities to other government departments	(417)	(3,006)
Net cost of operations after government funding and transfers	(82,697)	(3,170)
Departmental net financial position - Beginning of year	153,559	150,389
DEPARTMENTAL NET FINANCIAL POSITION - END OF YEAR	$ 236,256	$ 153,559

Segmented information (Note 15)

The accompanying notes form an integral part of these financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Statement of Change in Departmental Net Debt (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	2013	2012
Net cost of operations after government funding and transfers	$ (82,697)	$ (3,170)
Change due to tangible capital assets (Note 10)		
Acquisition of tangible capital assets	38,762	34,623
Amortization of tangible capital assets	(43,478)	(45,648)
Proceeds from disposal of tangible capital assets	(333)	(262)
Net (loss) or gain on disposal of tangible capital assets including adjustments	(134)	(877)
Non-cash changes of tangible capital assets	154	(48)
Transfer from other government departments	448	25
Transfer to other government departments	(417)	(5,462)
Total change due to tangible capital assets	(4,998)	(17,649)
Change due to prepaid expenses and inventory	(2,445)	1,086
Net increase (decrease) in departmental net debt	(90,140)	(19,733)
Departmental net debt - Beginning of year	232,909	252,642
Departmental net debt - End of year	$ 142,769	$ 232,909

The accompanying notes form an integral part of these financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Statement of Cash Flows (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	2013	2012 Restated (Note 16)
OPERATING ACTIVITIES		
Net cost of operations before government funding and transfers	$ 2,715,410	$ 2,576,678
Non-cash items:		
Amortization of tangible capital assets	(43,478)	(45,648)
Gain (Loss) on disposal of tangible capital assets	(134)	(877)
Non-cash changes of tangible capital assets	154	(48)
Services provided without charge by other government departments (Note 14)	(73,474)	(71,456)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(8,235)	1,057
Increase (decrease) in prepaid expenses and inventory	(2,445)	1,086
Decrease (increase) in accounts payable and accrued liabilities	24,706	434,188
Decrease (increase) in vacation pay and compensatory leave	1,429	7,345
Decrease (increase) in deferred revenue	(881)	(1,501)
Decrease (increase) in employee future benefits	4,327	27,793
Decrease (increase) in other liabilities	43,385	179,211
Transfer of liabilities to other government departments	-	(2,456)
CASH USED IN OPERATING ACTIVITIES	2,660,764	3,105,372
CAPITAL INVESTING ACTIVITIES		
Acquisition of tangible capital assets	38,762	34,623
Proceeds from disposal of tangible capital assets	(333)	(262)
CASH USED IN CAPITAL INVESTING ACTIVITIES	38,429	34,361
NET CASH PROVIDED BY GOVERNMENT OF CANADA	$ 2,699,193	$ 3,139,733

The accompanying notes form an integral part of these financial statements.

Note 1 - Authority and objectives

The Department of Agriculture and Agri-Food (AAFC) was originally established in 1868. Under the *Department of Agriculture and Agri-Food Act*, the Minister is responsible for agriculture, products derived from agriculture and research related to agriculture and products derived from agriculture including the operation of experimental farm stations, unless they have been assigned by law to another department, board or agency.

The Department provides information, research and technology, and policies and programs to achieve security of the food system, health of the environment and innovation for growth.

Business Risk Management
AAFC has a comprehensive business risk management program to better equip producers with the tools and capacity to manage business risks. This program provides coverage for small income declines, margin-based support for larger income losses, a disaster relief framework for rapid assistance to producers, and production insurance to protect farmers against production losses due to uncontrollable natural hazards. In addition, assistance to producers through the provision of financial guarantees facilitates the marketing of producers' products when market conditions and prices may be more favourable.

Internal Services
The Internal Services Program supports all strategic outcomes and is common across government. Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. These groups are: Management and Oversight Services; Communication Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Material Services; Acquisition Services; and Travel and Other Administrative Services. Internal Services include only those activities and resources that apply across an organization and not to those provided specifically to a program.

Science, Innovation and Adoption

AAFC contributes to the competitiveness of the agriculture, agri-food and agri-based products sector by supporting innovation designed to improve profitability in new and existing products, services, processes and markets.

Coordinated and informed decision-making is supported with strategic foresight, research, and information sharing contributing to integrated planning engaging industry, government and academia. Collaborative action is promoted to accelerate the flow of science and technology along the innovation continuum in support of industry defined strategies for future success. Farmers, agri-entrepreneurs and agri-based small, medium, and large sized enterprises are supported in their efforts to adopt new technologies and commercialize new products and services. Pathfinding and transformational research help to define future opportunities and prepare the sector for emerging opportunities and challenges.

Trade and Market Development

AAFC acts as Canada's agricultural trade advocate, working to break down trade barriers at home and abroad and expand opportunities for the agriculture, agri-food and agri-based products sector.

AAFC assists the sector in identifying new domestic and global opportunities, markets and ways to enhance productivity, competitiveness and prosperity. AAFC also works to distinguish Canadian products under *Brand Canada International* and the *Domestic Branding Strategy* to expand and deepen the sector's strengths in the marketplace.

On-Farm Action

AAFC supports farmers through direct on-farm programming that identifies environmental risks and opportunities and promotes the continuous growth of the stewardship ethic within the agriculture and agri-food industry.

AAFC supports farmers through agri-environmental risk assessment and planning; providing expertise, information and incentives to increase the adoption of sustainable agriculture practices at the farm and landscape levels; investigating and developing new approaches that encourage and support the adoption of sustainable agriculture practices; and increasing the recognition of the value of sustainable agriculture practices.

This Program supports environmental stewardship and helps reduce the sector's overall impact on the environment. It contributes to a cleaner environment and healthier living conditions for Canadian people, and a more profitable agriculture sector.

Food Safety and Biosecurity Risk Management Systems

AAFC supports producers and organizations in the development and implementation of food safety, biosecurity and traceability risk management systems to prevent and control risks to the animal and plant resource base thus strengthening the sector against widespread diseases and losses in domestic and foreign markets.

The risk management systems are national, government-recognized on-farm and/or post-farm Hazard Analysis of Critical Control Points (HACCP) or HACCP-based food safety systems, National Biosecurity Systems and a National Agriculture and Food Traceability System. These systems also support emergency management to limit the spread of animal and plant diseases, thereby reducing economic, environmental and social impacts of a crisis. A National Animal and Plant Biosecurity Strategy provides overall policy direction ensuring efforts are targeted at the highest possible biosecurity risks. Eligible recipients include national or regional non-profit organizations, producers and industry stakeholders.

Environmental Knowledge, Technology, Information and Measurement

AAFC is focused on supporting the sector through initiatives that enable it to use a more systematic management approach to making decisions with respect to environmental risks and help identify suitable corrective actions. AAFC is conducting basic and applied research to improve scientific understanding of agriculture's interactions with the environment on the key environmental challenges facing Canada and its regions; developing sustainable agricultural practices and validating environmental and economic performance at the farm and landscape levels; and developing, enhancing and using agri-environmental indicators, greenhouse gas accounting systems and economic indicators to assess the sector's environmental and economic sustainability. This program provides the platform for innovation and discovery of technologies and strategies to improve the agri-environmental performance of the sector.

Agri-Business Development

This program activity builds awareness of the benefits and encourages the use of sound business management practices, while also enabling businesses in the sector to be profitable and invest where needed to manage the natural resource base sustainably and to market and produce safe food and other products.

The Agri-Business Development program funds provincial and territorial activities related to business management practices and skills that: strengthen the capacity of businesses in the sector to assess the financial implications of business improvements, including the impact of environmental plans, food safety systems and innovation projects on their business profitability; manage transformation, respond to change and adopt innovation in business operations; help the agri-business owner understand their financial situation, implement effective action and business management plans/practices and provide for enhanced participation by young or new entrants, First Nations clients, and clients in specific sub-sectors in transition.

Rural and Co-operatives Development

Rural and Co-operatives Development supports community development through two distinct components: First, it leads an integrated, government-wide approach, called Canada's Rural Partnership, through which the government aims to coordinate its policies towards the goal of economic and social development and renewal of rural Canada. It develops partnerships with federal departments, provincial and rural stakeholders and offers tools to enable rural communities to use their innovative capacity to capture the value of local amenities, and to achieve greater local or regional economic competitiveness.

Second, it facilitates the development of co-operatives as an effective self-help tool for Canadians and communities to address their needs and capture economic opportunities. It provides advice across government on policies and programs affecting co-operatives and builds partnerships within the federal government and with the co-operative sector, the provinces and other key stakeholders to support the development of co-operatives.

Canadian Pari-Mutuel Agency

Section 204 of the *Criminal Code of Canada* designates the Minister of Agriculture and Agri-Food as the individual responsible for the policy and regulatory functions pertaining to pari-mutuel wagering on horse races.

The Canadian Pari-Mutuel Agency (CPMA) is a special operating agency within AAFC that regulates and supervises pari-mutuel betting on horse racing at racetracks across Canada, with the objective of ensuring that pari-mutuel betting is conducted in a way that is fair to the betting public. Costs associated with the activities of the CPMA are recovered through a levy on every dollar bet on horse races in Canada. The levy is currently set at eight-tenths of a cent of every dollar bet. CPMA's strategic plans are focused on regulating and supervising pari-mutuel wagering on horse races in the most modern, effective and transparent manner.

Regulatory Efficiency Facilitation

AAFC is undertaking initiatives to ensure that the regulatory environment promotes sector innovation, investment and competitiveness. The Department recognizes that with the rapid pace of technological advancement and emerging gaps between international and domestic regulatory policies, Canada's regulatory environment will need to increase capacities and accelerate modernization to be responsive. The initiatives will involve working with stakeholders along the value chain to enhance their ability to fulfill regulatory requirements, and collaborating with federal partners and industry to find ways of streamlining the regulatory burden through targeted actions on sector priorities, while at the same time maintaining Canada's strong regulatory system with respect to health and safety. Improving the timeliness and transparency of science-based regulatory decision-making will also contribute to improved public and stakeholder confidence.

Farm Products Council of Canada

Established through the *Farm Products Agencies Act*, the Farm Products Council of Canada (FPCC) is a unique public interest oversight body that reports to Parliament through the Minister of Agriculture and Agri-Food. The Act provides for the creation of national marketing and promotion-research agencies. The FPCC supervises these agencies and work with them to ensure that the supply management system for poultry and eggs and the check-off system for beef cattle work in the balanced interest of all stakeholders, from producers to consumers. The FPCC also provides advice to the Minister, maintains relationships with provincial governments and is an active proponent of portfolio management.

Note 2 - Summary of significant accounting policies

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

(a) Parliamentary authorities – The Department is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Department do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Departmental Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the 2012-13 Report on Plans and Priorities. The future-oriented financial statements for 2012-2013 have been restated to reflect the revenue net of non-respendable amounts. This restatement resulted in a $68,386,000 increase in net cost of operations before government funding and transfers. In addition, the future –oriented financial statements have been reclassified to conform to the current year presentation.

(b) Consolidation – These consolidated financial statements include the accounts of the sub-entities that the deputy head (DH) is accountable for. The accounts of these sub-entities have been consolidated with those of the Department and all inter-organizational balances and transactions have been eliminated. The accounting entity comprises of the Department of Agriculture and Agri-Food, the Farm Products Council of Canada, Canada Agricultural Review Tribunal and the Canadian Pari-Mutuel Agency. The financial statements do not include the accounts of the Canadian Food Inspection Agency, the Canadian Wheat Board, the Canadian Grain Commission, the Canadian Dairy Commission and Farm Credit Canada because they are not under the control of Agriculture and Agri-Food Canada and therefore, are not consolidated.

(c) Net Cash Provided by Government – The Department operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the Department is deposited to the CRF and all cash disbursements made by the Department are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Government.

(d) Amounts due from or to the Consolidated Revenue Fund are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Department is entitled to draw from the CRF without further authorities to discharge its liabilities.

(e) Revenues:

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred.
- Funds that have been received are recorded as deferred revenue, provided the Department has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Revenues that are non-respendable are not available to discharge the Department's liabilities.

  While the DH is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented as a reduction to the entity's gross revenues

(f) Expenses – Expenses are recorded on the accrual basis:

- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met all eligibility criteria and entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments for the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation are recorded as operating expenses at their estimated cost.

(g) Employee future benefits:

(i) Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The Department's responsibility with regard to the Plan is limited to its

contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(ii) Severance benefits: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(h) Accounts and loans receivable are stated at the lower of cost and net recoverable value. However, when the terms of the loans are concessionary, such as those provided with a low or no interest clause, they are recorded at their estimated present value. A portion of the unamortized discount is recorded as revenue each year to reflect the change in the present value of the loans outstanding. Transfer payments that are unconditionally repayable are recognized as loans receivable. A valuation allowance is recorded for accounts and loans receivable where recovery is considered uncertain.

(i) Contingencies – Contingencies are potential recoveries or liabilities which may become actual recoveries or liabilities when one or more future events occur or fail to occur.

(i) Contingent liabilities – To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(ii) Contingent recoveries – Contingent gains are not accrued in financial statements. However, a contingent gain which is considered likely to be realized is disclosed in the notes to the financial statements.

(j) Loan and price guarantees – An allowance on loans or price guarantees is recorded in the accounts when it is likely that a payment will be made to honor a guarantee and where the amount of the anticipated loss can be reasonably estimated. The amount of the allowance for losses is determined based on historical loss experience and economic conditions adversely affecting the capacity of borrowers to reimburse the loan. The allowance is reviewed on a regular basis and the variations are recorded in the statement of operations.

(k) Environmental liabilities – Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when the Department becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of the Department's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

(l) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of $10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value and museum collections.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

ASSET CLASS	AMORTIZATION PERIOD
Buildings	20 to 30 years
Works and infrastructure	15 to 40 years
Machinery and equipment	5 to 20 years
Vehicles	7 to 25 years
Computer Hardware and Software	3 to 5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

(m) Measurement uncertainty – The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, allowance for loan guarantees, the useful life of tangible capital assets, the liability for employee future benefits and environmental liabilities. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

Note 3 - Parliamentary Authorities

The Department receives most of its funding through annual Parliamentary authorities. Items recognized in the statement of operations and Departmental Net Financial Position and the Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year authorities used:

	2013	2012 Restated (Note 16)
Net cost of operations before government funding and transfers	$ 2,715,410	$ 2,576,678
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(43,478)	(45,648)
Gain (Loss) on disposal of tangible capital assets	(134)	(877)
Non cash changes of tangible capital assets	154	(48)
Services provided without charge by other government departments	(73,474)	(71,456)
Increase (decrease) in prepaid and inventory	(2,445)	964
Increase (decrease) in restricted accounts	(2,016)	(377)
Decrease (increase) in vacation pay and compensatory leave	1,429	6,771
Decrease (increase) in accrued liabilities	40,816	(19,710)
Decrease (increase) in employee future benefits	4,327	25,911
Decrease (increase) in allowances for bad debt expenses	(11,947)	2,130
Refund and adjustment of prior years' expenditures	10,006	31,361
Respendable revenue	4,408	4,725
Other	(2,284)	(3,364)
	(74,638)	(69,618)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets	38,762	34,623
Proceeds from disposal of tangible capital assets	(333)	(262)
Increase (decrease) in loan receivables	2,358	16,111
Increase in inventory	-	122
	40,787	50,594
Current year authorities used	$ 2,681,559	$ 2,557,654

(b) Authorities provided and used:

	2013	2012
AUTHORITIES PROVIDED:		
Vote 1 - Operating expenditures	$ 737,219	$ 756,690
Vote 5 - Capital expenditures	34,882	34,151
Vote 10 - Transfer payments	632,129	459,143
Statutory amounts	1,479,926	1,470,876
	2,884,156	2,720,860
Less:		
Authorities available for future years	8,907	6,953
Lapsed authorities	193,690	156,253
	202,597	163,206
CURRENT YEAR AUTHORITIES USED	$ 2,681,559	$ 2,557,654

Note 4 - Accounts payable and accrued liabilities

The following table presents details of the Department's accounts payable and accrued liabilities:

	2013	2012 Restated (Note 16)
Accounts payable to other government departments and agencies	$ 45,975	$ 19,930
Accounts payable to external parties	981,305	938,240
	1,027,280	958,170
Accrued liabilities	85,745	179,561
Total accounts payable and accrued liabilities	$ 1,113,025	$ 1,137,731

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, the Department has recorded at March 31, 2013 an obligation for termination benefits for an amount of $10,304,000 ($53,000,000 in 2011-2012) as part of accrued liabilities to reflect the estimated workforce adjustment costs.

Note 5 - Deferred Revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming mainly from joint collaborative agreements and cost-sharing agreements which are restricted to fund the expenditures related to specific research projects and amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

	2013	2012
Opening balance	$ 13,102	$ 11,601
Amounts received	6,418	5,869
Revenue recognized	(5,537)	(4,368)
Closing balance	$ 13,983	$ 13,102

Note 6 - Employee future benefits

(a) Pension benefits

The Department's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2% per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. The 2012-2013 expense amounts to $58,088,849 ($58,475,607 in 2012), which represents approximately 1.7 times (1.8 times in 2011-2012) the contributions by employees. The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits

The Department provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities.

As part of collective agreement negotiations with certain employee groups, and changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes were given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

Information about the severance benefits, measured as at March 31, is as follows:

	2013	2012
Accrued benefit obligation - Beginning of year	$ 81,946	$ 109,739
Transferred to other government department, effective November 15, 2011	-	(1,882)
Subtotal	81,946	107,857
Expense for the year	13,962	9,886
Benefits paid during the year	(18,289)	(35,797)
Accrued benefit obligation - End of year	$ 77,619	$ 81,946

Note 7 - Other liabilities

The Department holds funds in trust from the AgriInvest program, the AgriStability program as well as security deposits.

AgriInvest is a producer savings account program that replaces the coverage for smaller income declines that was provided by previous programs. Program payments are cost-shared with the province or territory which producers can withdraw under specific terms and conditions. Since 2010, producers now make their AgriInvest deposits at a participating financial institution of their choice. As such, existing funds held by the federal government are being transferred to the producer's AgriInvest account held at the financial institutions.

The AgriStability program helps producers protect their farming operations against larger drops in income. Program payments are shared 60% federally and 40% provincially/territorially. The provincial/territorial share of the contributions and interest paid on the contributions are held in a specified purpose account until the producers draw down their funds.

AgriInvest, AgriStability and security deposit account activity during the year was as follows:

	2013	2012
Opening balance	$ 115,590	$ 294,801
Deposits	383,105	423,093
Withdrawals	(426,490)	(602,304)
Ending balance	$ 72,205	$ 115,590

Note 8 - Accounts receivable and advances

The following table presents details of the Department's accounts receivable balances:

	2013	2012 Restated (Note 16)
Receivables from other government departments and agencies	$ 27,946	$ 21,200
Receivables from external parties	85,171	93,228
Employee advances	69	71
Subtotal	113,186	114,499
Allowance for doubtful accounts on receivables from external parties	(30,301)	(31,429)
Gross accounts receivable	82,885	83,070
Accounts receivable held on behalf of Government	20,526	12,474
Allowance for doubtful accounts held on behalf of Government	(39)	(37)
Net Accounts receivable held on behalf of Government	20,487	12,437
Net accounts receivable	$ 62,398	$ 70,633

Note 9- Loans receivable

The following table presents details of the Department's loans receivable and program advances balances:

	2013	2012
Transfer payments recoverable	$ 53,919	$ 51,561
Loans resulting from loan guarantee programs	452,974	414,228
Subtotal	506,893	465,789
Less: Allowance for uncollectibility	(167,640)	(124,013)
Gross loans receivable	339,253	341,776
Loans receivable held on behalf of Government	339,253	341,776
Net loans receivable	$ -	$ -

(a) Transfer payments recoverable

Transfer payments recoverable relate to contributions made to outside parties which are repayable based on conditions specified in the contribution agreement that have come into being. An allowance of $8,941,000 ($1,685,000 in 2012) has been recorded.

(b) Loans resulting from loan guarantee programs

The Department's loan receivables are the result of the exercise of loan guarantees by the initial lender under the terms of various loan guarantee programs. These loans are in default with the initial lender and due immediately to the Department. Interest rates on these loans vary according to the initial terms of the loans and applicable government regulations. An allowance of $158,699,000 ($122,328,000 in 2012) relating to these loans has been recorded.

Note 10 - Tangible capital assets

	COST				
CAPITAL ASSET CLASS	OPENING BALANCE	ACQUISITIONS	ADJUSTMENTS[1]	DISPOSALS AND WRITE-OFFS	CLOSING BALANCE
Land	$ 13,044	$ -	$ (13)	$ -	$ 13,031
Buildings	614,057	337	6,685	100	620,979
Works and infrastructure	59,226	20	1,584	-	60,830
Machinery and equipment	182,259	9,831	345	4,531	187,904
Vehicles	68,667	3,596	(103)	2,943	69,217
Leasehold improvements	23,889	11	239	-	24,139
Computer hardware and software	40,856	639	86	119	41,462
Assets under construction	20,595	24,328	(9,747)	336	34,840
	$ 1,022,593	$ 38,762	$ (924)	$ 8,029	$ 1,052,402

CAPITAL ASSET CLASS	ACCUMULATED AMORTIZATION				
	OPENING BALANCE	AMORTIZATION	ADJUSTMENTS[1]	DISPOSALS AND WRITE-OFFS	CLOSING BALANCE
Land	$ -	$ -	$ -	$ -	$ -
Buildings	411,816	17,861	(476)	100	429,101
Works and infrastructure	24,642	1,668	-	-	26,310
Machinery and equipment	123,392	9,865	169	4,465	128,961
Vehicles	42,502	4,599	(134)	2,878	44,089
Leasehold improvements	15,402	2,511	(11)	-	17,902
Computer hardware and software	24,440	6,974	(657)	119	30,638
Assets under construction	-	-	-	-	-
	$ 642,194	$ 43,478	$ (1,109)	$ 7,562	$ 677,001

NET BOOK VALUE

CAPITAL ASSET CLASS	2013	2012
Land	$ 13,031	$ 13,044
Buildings	191,878	202,241
Works and infrastructure	34,520	34,584
Machinery and equipment	58,943	58,867
Vehicles	25,128	26,165
Leasehold improvements	6,237	8,487
Computer hardware and software	10,824	16,416
Assets under construction	34,840	20,595
	$ 375,401	$ 380,399

(1) Adjustments include assets under construction of $9,747,000 that were transferred to the other categories upon completion of the assets.

During the fiscal year 2013, the Department received machinery and equipment from other government department with a net book value of $448,242. The Department transferred machinery and equipment to other government department with a net book value of $417,045.

Note 11 – Departmental net financial position

A portion of the Department's net financial position is used for a specific purpose. Related revenues and expenses are included in the Statement of Operations and the Departmental Net Financial Position. The Department operates two programs which under legislation require that the revenues be earmarked to offset the expenses of the program.

The Crop Re-insurance Fund was established pursuant to the *Farm Income Protection Act*. This program provides insurance to participating provinces for costs they incur in operating crop insurance programs. The fund records receipts and disbursements under the terms of reinsurance agreements. When there are insufficient revenues to meet payments, the Minister of Finance may authorize an advance of additional funds to cover these obligations.

The Agricultural Commodities Stabilization Accounts were established pursuant to the *Agricultural Stabilization Act*, under which the commodity accounts formerly operated, and has since been repealed and replaced by the *Farm Income Protection Act* effective April 1, 1991. The purpose of these accounts was to reduce income loss to producers from market risks through stabilizing prices. Premiums were shared equally by the Government of Canada, the governments of participating provinces and participating producers. Current activities are limited to collection of accounts receivable.

The balances of the accounts at the end of the year are included in the Statement of Change in Departmental Net Debt. Activities in these accounts are as follows:

	2013	2012
Crop Re-insurance Fund - Restricted		
Balance - Beginning of year	$ 123,433	$ 89,252
Revenues	80,403	34,558
Expenses	(2,016)	(377)
Balance-end of year	201,820	123,433
Agricultural Commodities Stabilization Accounts - Restricted	647	647
Unrestricted	33,789	29,479
Departmental net financial position-End of year	$ 236,256	$ 153,559

Note 12 - Contractual Obligations

The nature of the Department's activities can result in some large multi-year contracts and obligations whereby the Department will be obligated to make future payments in order to carry out its transfer payment programs. Significant non revocable contractual obligations that can be reasonably estimated are summarized as follows:

	2014	2015	2016	2017	2018 AND THEREAFTER	TOTAL
TRANSFER PAYMENTS	$ 178,071	$ 98,500	$ 92,700	$ 70,100	$ 123,600	$ 562,971

Note 13 – Contingencies

Contingencies arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into five categories as follows:

(a) Contaminated sites

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the Department is likely to incur such costs. The Department has identified approximately 14 sites (15 sites in 2012) where such action is possible and for which a liability of $856,349 ($1,193,853 in 2012) has been recorded in accrued liabilities. The Department has estimated additional clean-up costs of $2,724,647 ($2,812,934 in 2012) that are not accrued, as these are not considered likely to be incurred at this time. The Department's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the Department in the year in which they become likely and are reasonably estimable.

(b) Claims and litigation

Claims have been made against the Department in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. The Department has also been named in other legal claims against the Government of Canada, related to the agricultural industry, for which amounts and likelihood of liability cannot be determined. The limited disclosure regarding the contingent liabilities for legal claims recognized by the Department is a direct reflection of the sensitivity and status of on-going claims

(c) Loan or price guarantees

	AUTHORIZED LIMIT	OUTSTANDING GUARANTEES		ALLOWANCE AS AT MARCH 31	
		2013	2012	2013	2012
Loans according to the Advance Payments Program under the *Agricultural Marketing Programs Act*	$ 5,000,000	$ 945,847	$ 1,047,041	$ 77,339	$ 124,328
Loans to farmers under the *Canadian Agricultural Loans Act*	3,000,000	99,363	103,977	994	1,040
Price guarantee agreements with marketing agencies pursuant to the Price Pooling Program under the *Agricultural Marketing Programs Act*	No limit	21,258	6,861	-	-
National Biomass Ethanol Program	140,000	24,960	24,960	-	-
		$ 1,091,428	$ 1,182,839	$ 78,333	$ 125,368

The allowance for losses is the amount recorded for estimated losses on outstanding loan guarantees and which is included in accrued liabilities. No allowance has been recorded for the Price Pooling Program of the *Agricultural Marketing Programs Act* and for the National Biomass Ethanol Program as no costs are likely to occur.

Under the Advance Payments Program of *Agricultural Marketing Programs Act*, the Department guarantees the repayment of advances made by producer organizations to farmers in the spring and in the fall, creating a more stable business environment. The maximum cash advance of the program is $400,000. The loans generally have a repayment term of 18 months.

Under the *Canadian Agricultural Loans Act*, the Department guarantees loans by financial institutions to farmers for improvement and development of farms, and the processing, distribution or marketing of farm products. This program guarantees 95 percent of the value of loans provided to farms and co-operatives by financial institutions. For individual applicants, including corporations, the maximum amount for a *Canadian Agricultural Loans Act* loan is $500,000. Most loans are repayable within ten years. For loans on land purchases, the repayment period is 15 years.

Under the Price Pooling Program of the *Agricultural Marketing Programs Act*, the Department provides a price guarantee that protects marketing agencies and producers against unanticipated declines in the market price of their products.

The Minister of Agriculture and Agri-Food is authorized to guarantee Line of Credit Agreements entered into by Farm Credit Canada under the National Biomass Ethanol Program.

(d) Transfer Payments - Conditionally Repayable Contributions

Under the Ruminant Slaughter Loan Loss Reserve Program, which ended in 2007, conditionally repayable contributions which are outstanding in 2013 total $6,695,517 ($6,628,940 in 2012). The funds contributed and accumulated interest are repayable within 10 years and no later than December 31, 2017, net of the amounts used to cover a portion of the loan defaults.

Under the EcoAgriculture Biofuels Capital Initiative, conditionally repayable contributions which are outstanding in 2013 total $58,855,012 ($51,348,420 in 2012). Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years and no later than March 31, 2023.

Under the Slaughter Improvement Program, conditionally repayable contributions have been committed for a total amount of $49,703,001 ($54,804,243 in 2012). Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years. The final payment is due no later than June 1, 2024.

Under the Slaughter Waste Innovation Program, conditionally repayable contributions have been issued for a total amount of $23,720,497 ($0 in 2012). Repayments are determined by a project's profitability as well as whether and how a project demonstrates the destruction or deactivation of Specified Risk Material. Contributions have a maximum repayment period of 10 years and the final payment is due no later than March 31, 2024.

The amounts that will become repayable cannot be currently estimated. The contributions bear interest rates either at the cost of capital of the lender or at the Government of Canada 90-day bond rate, as per initial agreements with the lender.

(e) Contingent Recoveries

AgriStability and Canadian Agricultural Income Stabilization (CAIS) programs are federally and provincially/territorially cost shared programs and CAIS Inventory Transition Initiative (CITI) is a federally funded program. When provincial/territorial governments deliver these programs and overpayments occur, the federal government is entitled to recover its share of funding if and when overpayments are recovered. The Department has estimated the contingent recoverable amount as $10,725,834 ($12,946,010 in 2012). Contingent recoveries are not recorded in the financial statements.

Note 14 - Related Party Transactions

The Department is related as a result of common ownership to all Government departments, agencies, and Crown Corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, the Department received common services which were obtained without charge from other Government departments as disclosed below.

(a) Common services provided without charge by other government departments

During the year the Department received services without charge from certain common service organizations, related to the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation coverage. These services provided without charge have been recorded in the Department's Statement of Operations and Departmental Net Financial Position as follows:

	2013	2012
Employer's contribution to the health and dental insurance plans	$ 43,653	$ 41,646
Accommodation	27,223	26,756
Legal services	1,369	1,745
Workers' Compensation	1,229	1,309
	$ 73,474	$ 71,456

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General are not included in the Department's Statement of Operations and Departmental Net Financial Position.

(b) Other transactions with related parties

	2013	2012
Expenses - Other Government departments and agencies	$ 144,745	$ 139,002
Revenues - Other Government departments and agencies	$ 12,005	$ 7,527

Note 15 - Segmented information:

Presentation by segment is based on the Department's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main programs, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

*	BRM	IS	SIA	TMD	OFA	RMS	EKTIM	ABD	RCD	CPMA	REF	FPCC	2013 TOTAL	2012 TOTAL RESTATED (NOTE 16)
EXPENSES														
Transfer payments	$ 1,327,175	$ (300)	$ 105,997	$ 203,805	$ 72,562	$ 53,509	$ 1,879	$ 63,705	$ 3,983	$ -	$ -	$ -	$ 1,832,315	$ 1,666,110
Salaries and employee benefits	21,531	238,539	160,545	47,700	29,061	30,345	63,962	3,655	10,933	3,627	7,034	2,282	619,214	641,640
Professional and other services	8,678	62,654	14,551	9,566	1,376	2,612	9,045	1,741	264	4,399	3,447	309	118,642	119,761
Allowance for loan guarantees and bad debts	13,751	11,962	-	-	-	-	-	-	-	-	-	-	25,713	(3,341)
Materials and supplies	72	14,016	20,750	561	6,382	3,030	4,623	7	1	91	702	91	50,326	56,748
Amortization of tangible capital assets	-	43,030	-	-	-	-	-	-	-	448	-	-	43,478	43,227
Accommodation	(1,357)	40,032	241	(168)	920	56	176	39	8	522	78	22	40,569	43,761
Travel	367	2,243	3,162	2,553	961	600	1,656	49	178	116	205	160	12,250	15,981
Repairs and maintenance	315	14,782	2,099	4	1,117	168	429	-	-	14	97	2	19,027	21,015
Electricity and other public services	-	14,899	83	-	382	3	6	-	-	6	67	-	15,446	16,575
Crop Re-Insurance Fund	2,016	-	-	-	-	-	-	-	-	-	-	-	2,016	377
Expenses incurred on behalf of Government	-	(15)	-	-	-	-	-	-	-	-	-	-	(15)	3
TOTAL EXPENSES	1,372,548	441,842	307,428	264,021	112,761	90,323	81,776	69,196	15,367	9,223	11,630	2,866	2,778,981	2,621,857
REVENUES														
Crop Re-insurance Fund	80,403	-	-	-	-	-	-	-	-	-	-	-	80,403	34,558
Sale of goods and services	1,592	13,698	24,254	-	21,389	232	45	-	27	10,677	13	-	71,927	64,347
Interest	2,391	9,529	101	1	37	11	21	-	-	51	1	-	12,143	11,719
Joint project and cost sharing agreements	-	5,535	-	-	-	-	-	-	-	-	-	-	5,535	4,303
Gain on disposal of assets	-	342						-	-	-	-	-	342	238
Revenues earned on behalf of Government	(83,695)	(17,243)	(5,283)	(1)	(306)	(185)	(25)	-	(27)		(14)	-	(106,779)	(58,391)
Total revenues	691	11,861	19,072	-	21,120	58	41	-	-	10,728	-	-	63,571	56,774
NET COST FROM CONTINUING OPERATIONS	$ 1,371,857	$ 429,981	$ 288,356	$ 264,021	$ 91,641	$ 90,265	$ 81,735	$ 69,196	$ 15,367	$ (1,505)	$ 11,630	$ 2,866	$ 2,715,410	$ 2,565,083

*BRM – Business Risk Management ; IS – Internal Services; SIA – Science, Innovation and Adoption; TMD – Trade and Market Development; OFA – On-Farm Action; RMS – Food Safety and Biosecurity Risk Management Systems; EKTIM – Environmental Knowledge, Technology, Information and Measurement; ABD – Agri-Business Development; RCD – Rural and Co-operatives Development; CPMA – Canadian Pari-Mutuel Agency; REF – Regulatory Efficiency Facilitation; FPCC – Farm Products Council of Canada.

Note 16 – Adjustments to Prior Year's Results

(a) During 2011, amendments were made to Treasury Board Accounting Standard 1.2-- Departmental and Agency Financial Statements to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012, and later and were adopted by the department in prior year. Further clarification regarding the application of this standard resulted in changes to the March 31, 2012 financial statements. These changes have been applied retroactively, and comparative information for 2011-2012 has been restated. The effect of this adjustment is presented in the table below.

(b) Effective April 1, 2012, the department adopted the new Public Sector Accounting Standard 3410 – government transfers which resulted in a change in the timing of the recording of expenses related to the Agri-Invest program. This change in accounting policy has been applied retroactively and comparative information for 2011-2012 has been restated. The effect of this adjustment is presented in the table below.

	2012 As previously stated	Effect of the adjustments 16 (a)	Effect of the adjustments 16 (b)	2012 Restated
STATEMENT OF FINANCIAL POSITION:				
Accounts payable and accrued liabilities	$ 1,385,016	$ -	$ (247,285)	$ 1,137,731
Due from Consolidated Revenue Fund	1,310,851	11,656	(247,285)	1,075,222
Financial assets held on behalf of Government				
Account receivable and advances	(781)	(11,656)	-	(12,437)
Total Assets held on behalf of Government	(342,557)	(11,656)	-	(354,213)
Total net financial assets	1,393,140	-	(247,285)	1,145,855
Statement of Operations and Departmental Net Financial Position:				
Revenues	64,239	(7,465)	-	56,774
Net cost from continuing operations	2,557,618	7,465	-	2,565,083
Net cost of operations before government funding and transfers	2,569,213	7,465	-	2,576,678
Net cash provided by Government	2,896,639	(4,191)	247,285	3,139,733
Change in due from Consolidated Revenue fund	$ (392,731)	$ 11,656	$ (247,285)	$ (628,360)

Note 17 - Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.

AGRICULTURE AND AGRI-FOOD CANADA

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting

Note to the reader

In accordance with the Treasury Board *Policy on Internal Control,* departments are required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

Under this policy, departments are expected to conduct annual assessments of their system of ICFR, establish action plan(s) to address any necessary adjustments, and to attach to their *Statements of Management Responsibility* a summary of their assessment results and action plan.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- transactions are appropriately authorized;
- financial records are properly maintained;
- assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement; and
- applicable laws, regulations and policies are followed.

It is important to note that the system of ICFR is not designed to eliminate all risks, but rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess the effectiveness of associated key controls and adjust as required, as well as to monitor the system in support of continuous improvement. As a result, the scope, pace and status of those departmental assessments of the effectiveness of their system of ICFR will vary from one organization to another based on risks and taking into account their unique circumstances.

1. Introduction

This document is attached to Agriculture and Agri-Food Canada's *Statement of Management Responsibility Including Internal Control Over Financial Reporting* for the fiscal-year 2012-2013. As required by the Treasury Board *Policy on Internal Control*, this document provides summary information on the measures taken by Agriculture and Agri-Food Canada to maintain an effective system of ICFR. In particular, it provides summary information on the assessments

conducted by Agriculture and Agri-Food Canada as at March 31, 2013, including progress, results and related action plans along with some financial highlights pertinent to understanding the control environment unique to the department. **1.1 Authority, Mandate and Program Activities**

Detailed information on Agriculture and Agri-Food Canada's authority, mandate and program activities can be found in the Departmental Performance Report and the Report on Plans and Priorities.

1.2 Financial Highlights

Financial information can be found in the financial statements (unaudited) of Agriculture and Agri-Food Canada for fiscal year 2012-2013. Information can also be found in the Public Accounts of Canada.

- Total expenses were $2.8B, which includes transfer payments of $1.8B (64%) followed by salaries and employee benefits of $619.2M (21%). Transfer payments are largely to help agriculture producers to manage business risk.
- Total revenues were $170.4M, which includes $106.8M related to revenues earned on behalf of Government and not available to cover departmental expenses. Revenues are primarily comprised of Crop Re-insurance fund premiums of $80.4M (47%) followed by the sale of goods and services that totaled $71.9M (42%).
- Financial assets are made up of the amount due from the Consolidated Revenue Fund $1.1B (73%) followed by loans receivable $339.3M (22%) and accounts receivable $82.9 M (5%).
- Non-financial assets consist primarily of tangible capital assets of $375.4M. The majority of tangible capital assets are buildings, machinery and equipment located at agricultural research centres across Canada.
- Accounts payable and accrued liabilities includes $1.1B (85%) of total liabilities of $1.3B. Accrued liabilities related to transfer payment programs represent the largest portion of this category. Other liabilities of $72.2M (6%) consist of amounts held in trust from agricultural producers and provincial administrations under the terms of transfer payment programs to manage business risks.
- The department has a strong regional presence across the country. Due to this decentralization, certain finance and accounting functions are also decentralized and research centres and regional offices initiate, approve and/or record a significant portion of the department's operating expenditures. Although the finance and accounting functions are decentralized in various locations, these functions are consolidated under the responsibility of a single branch.
- Agriculture and Agri-Food Canada has a comprehensive information systems environment that is critical to its operations and financial reporting which is comprised of an integrated financial system (SAP), a human resource management system (Peoplesoft), and grants and contributions delivery systems. Business processes are standardized across all locations.

1.3 Service Arrangements Relevant to Financial Statements

Agriculture and Agri-Food Canada relies on other organizations for the processing of certain transactions that are recorded in its financial statements:

- The Department of Public Works and Government Services centrally administers the payment of salaries, the procurement of goods and services, as well as the provision of accommodations.
- Shared Services Canada provides e-mail, data center and telecommunications services.
- Treasury Board Secretariat provides the department with information used to calculate various accruals and allowances, such as the accrued severance liability.
- The Department of Justice provides legal services to Agriculture and Agri-Food Canada

1.4 Services Provided to Other Government Departments

Agriculture and Agri-Food Canada has entered into service arrangements with other government departments as follows:

- Agriculture and Agri-Food Canada administers a shared instance of SAP that includes Agricuture and Agri-Food Canada, Natural Resources Canada and the Canadian Food Inspection Agency.
- SAP hosting services are provided to Canadian International Development Agency, Parks Canada, Canadian Space Agency, and Heritage Canada, which includes performing system back-ups and kernel upgrades.
- Agriculture and Agri-Food Canada administers a shared instance of PeopleSoft that includes Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency, Health Canada, the Public Health Agency of Canada, the Department of Fisheries and Oceans and Shared Services Canada

1.5 Changes in Fiscal Year

No significant departmental changes that are relevant to financial statements occurred in 2012-2013.

2. Control environment at Agriculture and Agri-Food Canada relative to ICFR

Agriculture and Agri-Food Canada recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and are well equipped to exercise these responsibilities effectively. Agriculture and Agri-Food Canada's focus is to ensure risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Key Positions, Roles and Responsibilities

Below are Agriculture and Agri-Food Canada's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

Deputy Minister - Agriculture and Agri-Food Canada's Deputy Minister, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Deputy Minister is advised by the Departmental Audit Committee and the Departmental Management Committee.

Chief Financial Officer (CFO) - Agriculture and Agri-Food Canada's CFO reports directly to the Deputy Minister and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR, including its annual assessment. Falling under the CFO responsibilities is also the management of the Agriculture and Agri-Food Canada Corporate Risk Profile.

Senior Departmental Managers - Agriculture and Agri-Food Canada's senior departmental managers in charge of program delivery are responsible for maintaining and reviewing the effectiveness of their system of ICFR falling within their mandate.

Chief Audit Executive (CAE) - Agriculture and Agri-Food Canada's CAE reports directly to the Deputy Minister and provides assurance through periodic internal audits which are instrumental to the maintenance of an effective system of ICFR.

Departmental Audit Committee (DAC) - The DAC is an advisory committee that provides objective views on the department's risk management, control and governance frameworks. It is comprised of four external members and was established in 2008. The DAC reviews Agriculture and Agri-Food Canada's Corporate Risk Profile and its system of internal control, including internal and external audit reports and the assessment and action plans relating to the system of ICFR.

Departmental Management Committee (DMC) - As the Agriculture and Agri-Food Canada's central decision-making body, the DMC reviews, approves and monitors the Corporate Risk Profile and the departmental system of internal controls, including the system of ICFR.

Horizontal Management Committee (HMC) – The HMC is chaired by the Associate Deputy Minister and guides horizontal management and provides oversight of human resources, finances, information management and systems, communications and assets, to support current and emerging business needs.

Policy and Programs Management Committee (PPMC) – Assistant Deputy Minister level committee responsible for guiding the development and implementation of cohesive and

comprehensive policies, programs and services, and monitoring of results.

2.2 Key measures taken by Agriculture and Agri-Food Canada

Agriculture and Agri-Food Canada's control environment also includes a series of measures to equip its staff to manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. The most relevant are:

- Departmental Ethics Office and Code of Ethics which provides information and support to staff on ethical issues;
- Security Guidelines relating to the overall security program including elements of information and personnel security;
- Guidelines for managers, supervisors, and employees for the internal disclosure of wrongdoing;
- Departmental policies tailored to the Department's control environment;
- Regularly updated delegated authorities matrix;
- Training program and communications in core areas of financial management; and
- Documentation of main business processes and related key risk and control points to support the management and oversight of its system of ICFR.

3. Assessment of Agriculture and Agri-Food Canada's System of ICFR

3.1 Assessment approach

To satisfy the requirements of the *Policy on Internal Control*, the department must maintain an effective system of ICFR with the objective to provide reasonable assurance that:

- transactions are appropriately authorized;
- financial records are properly maintained;
- assets are safeguarded; and
- applicable laws, regulations and policies are followed.

This includes conducting **ongoing monitoring** to assess the **design** and **operating effectiveness** of the system of ICFR leading to continuous improvement and reasonable assurance related to the departmental system of ICFR.

Design effectiveness means to ensure that key control points are identified, documented, in place and that they are aligned with the risks (i.e. controls are balanced with and proportionate to the risks they aim to mitigate) and that any remediation is addressed. This includes the mapping of key processes and IT systems to the main accounts by location as applicable.

- **Operating effectiveness** means that the application of key controls has been tested over a defined period and that any required remediation is addressed.

Such testing covers all departmental control levels including corporate or entity controls, information technology general controls and business cycle controls.

The department took measures to complete its initial assessment of all business cycle controls, information technology general controls, and entity level controls during fiscal year 2011-2012, fiscal year 2012-2013 saw the department adopt an ongoing risk-based monitoring approach to support testing of ICFR. Under this approach, all business cycle controls, information technology general controls and entity level controls are assigned a risk rating of high, medium, or low. High risk areas are assessed annually, medium risk at least every two years, and low risk at least every three years.

3.2 Scope of Agriculture and Agri-Food Canada assessment during fiscal year 2012-2013

Adopting the ongoing monitoring schedule outlined in the department's annex for 2011-2012, Agriculture and Agri-Food Canada validated and tested internal controls in the following areas during 2012-2013:

- Business Cycle Controls
  - Financial close and reporting
  - Budgeting and forecasting
  - Loan guarantees
  - Capital assets
  - Operating expenditures

- Information Technology General Controls
  - Security
  - Change Management

The testing period for these controls covered January 1, 2012 to December 31, 2012.

In addition, Agriculture and Agri-Food Canada documented and tested design and operating effectiveness of the system of internal controls over SAP related to the department's role as an administrator and service provider under service arrangements to other federal government departments. This assessment expanded on previous assessments and testing that was completed on the SAP system to also look at information technology general controls in the following areas as they relate to the overall administration of the SAP system:

- Information Technology General Controls
  - IT Operations
  - Security
  - Change Management
  - Backups

4. Agriculture and Agri-Food Canada's Assessment Results during fiscal year 2012-2013

The Department has developed baseline architecture of all key control points for business process and main IT systems that have been based on and assessed against the Common Financial Management Business Process developed by the Office of the Comptroller General. In completing ongoing monitoring of its key controls, the Department first confirmed that there were no material changes within the department that would impact the departmental system of ICFR and warrant an adjustment to the planned ongoing monitoring schedule for fiscal year 2012-2013. As no changes were required, the department completed validation and testing of documented controls for the key areas described in Section 3.2 above.

4.1 Ongoing Monitoring of Internal Controls

Agriculture and Agri-Food Canada completed operating effectiveness testing of all internal controls for areas identified for assessment in 2012-2013 according to the departmental ICFR program. During this testing, it was noted that the Department has a number of good key controls implemented and operating effectively. Progress was also made to address areas of improvement identified in 2011-2012, with a number of actions having being completed and controls determined as operating effectively. In other lower risk areas, where corrective action required more time to complete, progress is continuing to address recommendations for improvement. Areas noted for improvement during the 2012-2013 assessment are as follows:

- **Business Cycle Controls**
  - Implement a formal monitoring process for Journal Entries;
  - Undertake a review of the departmental coding manual;
  - Complete the review of SAP user access to ensure individual access is based on position requirements;
  - Continue to improve the follow-up on findings identified through compliance visits or audits of administrators of loan guarantee programs; and
  - For a few specific control activities, ensure adequate documentation is retained to evidence completion.

- **Information Technology General Controls**
  - Continue to review system access privileges to ensure system access is appropriately restricted, and segregation of duties exists between system development and production; and
  - Enhance documentation and approvals for granting logical system access for certain IT systems.

- Where immediate action could be taken, specific corrective actions were implemented shortly after the necessary adjustments were identified. Otherwise, action plans either have been or are currently being developed to fully address the control weaknesses within a reasonable timeframe. Follow-up will be performed on action plans to ensure that progress is completed according to the established schedule.

4.2 Design and Operating Effectiveness Testing

As noted in Section 3.2 above, Agriculture and Agri-Food Canada undertook an assessment of the information technology general controls related to the administration of the shared instance of SAP administered on behalf of other government departments. Based on the documentation of internal controls and the design and operating effectiveness testing completed, it was determined that the overall SAP internal control environment is strong.

5. Agriculture and Agri-Food Canada's Action Plan

5.1 Progress during fiscal year 2012-2013

To ensure the **accuracy of departmental financial statements and Public Accounts**, the department took steps during 2012-2013 to improve procedures in the following areas:

- Completed. The department has implemented enhancements to the financial system for the delivery of loan guarantee programs. These enhancements will permit the department to have more timely and accurate information regarding outstanding loan guarantee balances.

The department achieved its commitments for 2012-2013 from the 2011-2012 action plan by completing of activities as follows:

- Completed. The department has adopted a risk-based monitoring strategy to ensure the ongoing effectiveness of its system of ICFR.
- Substantially completed. The department has implemented corrective actions to address most areas for improvement noted during the 2011-2012 assessment. A number of corrective actions are complete and have been tested during the department's 2012-2013 assessment. Other actions requiring longer timeframes to fully address are ongoing.
- Completed. As at March 31, 2013, the department has completed documentation and testing of internal controls for the administration of the shared instance of SAP and related services provided to other government departments.

5.2 Action Plan for the Next Fiscal Year and Future Years

Under the *Policy on Internal Control*, departments need be able to maintain an effective system of ICFR with the objectives to provide reasonable assurances that a) transactions are appropriately authorized, b) financial records are properly maintained, c) assets are safeguarded and d) applicable laws, regulations and policies are followed.

- Agriculture and Agri-Food Canada is positioned to take corrective measures in 2013-2014 to improve controls in the areas noted during testing this year. The department will also proceed with ongoing risk-based monitoring of key ICFR based on the following cycle:

Activity		Year 1 2013/14	Year 2 2014/15	Year 3 2015/16	Year 4 2016/17
Ongoing monitoring					
High Risk (Annual)	Financial Close & Reporting	X	X	X	X
	Budgeting and Forecasting	X	X	X	X
	New Transfer Payment Programs	X	X	X	X
	IT Security	X	X	X	X
	IT Change Management	X	X	X	X
Medium Risk (2 year cycle)	AgriStability	X		X	
	AgriInvest	X		X	
	AgriInsurance	X		X	
	Generic Grants and Contributions	X		X	
	Capital Assets		X		X
	Loan Guarantees		X		X
	IT Operations		X		X
Low Risk (3 year cycle)	Operating Expenditures			X	
	Payroll		X		
	Revenues	X			X
	IT Backups			X	
	Entity Level Controls		X		

By the end of fiscal year 2013-2014, Agriculture and Agri-Food Canada also plans to complete the following:

- Enhance the documentation of internal controls related to Agriculture and Agri-Food Canada's role as the administrator of the shared instance of Peoplesoft that is used by multiple government departments and agencies.